STATE OF SOUTH CAROLINA)

In Re:

Annual Review of Base Rates
For Fuel Costs for
Duke Energy Carolinas, LLC

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET
NUMBER: 2008-3-E

(Please type or print)

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DOCKETING INFORMATION (Check all that apply)

☐ **Emergency Relief demanded in petition** ☐ **Request for item to be placed on Commission's Agenda expeditiously**

☒ **Other: Testimony of M. Elliott Batson**

INDUSTRY (Check one)

- ☒ Electric
- ☐ Electric/Gas
- ☐ Electric/Telecommunications
- ☐ Electric/Water
- ☐ Electric/Water/Telecom.
- ☐ Electric/Water/Sewer
- ☐ Gas
- ☐ Railroad
- ☐ Sewer
- ☐ Telecommunications
- ☐ Transportation
- ☐ Water
- ☐ Water/Sewer
- ☐ Administrative Matter
- ☐ Other:

NATURE OF ACTION (Check all that apply)

- ☐ Affidavit
- ☐ Agreement
- ☐ Answer
- ☐ Appellate Review
- ☐ Application
- ☐ Brief
- ☐ Certificate
- ☐ Comments
- ☐ Complaint
- ☐ Consent Order
- ☐ Discovery
- ☐ Exhibit
- ☐ Expedited Consideration
- ☐ Interconnection Agreement
- ☐ Interconnection Amendment
- ☐ Late-Filed Exhibit
- ☐ Letter
- ☐ Memorandum
- ☐ Motion
- ☐ Objection
- ☐ Petition
- ☐ Petition for Reconsideration
- ☐ Petition for Rulemaking
- ☐ Petition for Rule to Show Cause
- ☐ Petition to Intervene
- ☐ Petition to Intervene Out of Time
- ☒ Prefiled Testimony
- ☐ Promotion
- ☐ Proposed Order
- ☐ Protest
- ☐ Publisher's Affidavit
- ☐ Report
- ☐ Request
- ☐ Request for Certificatio
- ☐ Request for Investigatio
- ☐ Resale Agreement
- ☐ Resale Amendment
- ☐ Reservation Letter
- ☐ Response
- ☐ Response to Discovery
- ☐ Return to Petition
- ☐ Stipulation
- ☐ Subpoena
- ☐ Tariff
- ☐ Other:

BEFORE THE

PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2008-3-E

In the Matter of Annual Review of Base Rates for Fuel Costs for Duke Energy Carolinas, LLC	)))))	**TESTIMONY OF** **M. ELLIOTT BATSON**

Q. PLEASE STATE YOUR NAME, ADDRESS AND POSITION WITH DUKE ENERGY.

A. My name is M. Elliott Batson and my business address is 526 South Church Street, Charlotte, North Carolina. I am Director, Coal Procurement for Duke Energy Corporation ("Duke Energy") and in that capacity I am responsible for coal procurement for Duke Energy Carolinas, LLC ("Duke Energy Carolinas" or the "Company") as well as for Duke Energy's other regulated electric utility operating companies.

Q. STATE BRIEFLY YOUR EDUCATION, BUSINESS BACKGROUND AND PROFESSIONAL AFFILIATIONS.

A. I am a 1985 graduate of the University of South Carolina with a Bachelor of Science in Business Administration. I have been employed with Duke Energy since 1986 and have worked in the Fossil Fuel Procurement function since 1990. I am a member of the North Carolina Coal Institute.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to furnish information relating to the Company's fossil fuel purchasing practices and costs for the test period July 2007 through June 2008 and describe any changes forthcoming in the 2008 and 2009 forecast period. I will also address the limestone costs that are included in the proposed fuel factor in accordance with the South Carolina fuel cost recovery statute that allows for the inclusion of reagent costs.

Q. YOUR TESTIMONY INCLUDES FOUR EXHIBITS. WERE THESE EXHIBITS PREPARED BY YOU OR AT YOUR DIRECTION AND UNDER YOUR SUPERVISION?

A. Yes.

Q. PLEASE PROVIDE A DESCRIPTION OF THESE EXHIBITS.

A. The exhibits provide the following information:

Batson Exhibit 1 – Fossil Fuel Procurement Practices

Batson Exhibit 2 – Fossil Fuel Purchases and Consumption

Batson Exhibit 3 – Comparison of Central Appalachia Market Coal Prices to Duke Energy Carolinas Average Coal Cost for the Test Period and Projected Costs

Batson Exhibit 4 – Fossil Fuel Inventories

Q. MR. BATSON, CAN YOU PROVIDE A SUMMARY OF DUKE ENERGY CAROLINAS' FOSSIL FUEL PROCUREMENT PRACTICES?

A. Yes. The Company continues to follow the same procurement practices that it has historically followed, which includes establishing appropriate inventory requirements; regular RFPs and bid evaluation; balancing long-term contract and spot purchases; staggering contract expirations; pursuing contract extension options; maintaining a well diversified coal supplier base; and actively monitoring supplier and railroad performance. A summary of those practices is set out in Batson Exhibit 1.

Q. PLEASE DISCUSS THE COMPANY'S COST OF FOSSIL FUEL FOR THE TEST PERIOD.

A. A summary of Duke Energy Carolinas' costs as well as other statistical information for each fossil fuel category for the period July 2007 through May 2008 is set forth on Batson Exhibit 2. This exhibit includes the quantities consumed, quantities purchased, and the weighted average purchase price for each fuel. Because several components make up the total cost of coal, coal statistics are broken down to show the average freight on board ("f.o.b.") mine cost, the transportation cost, and the delivered cost per million British Thermal Units ("BTUs").

The delivered cost per ton of coal increased approximately 3% from an average of $67.47 for the prior period (July 2006 to June 2007) to an average of $69.32 for the test period (July 2007 to May 2008). The average mine price per ton of coal decreased approximately 2% from an average of $46.68 for the prior period (July 2006 to June 2007) to an average of $45.78 for the test period (July 2007 to May 2008). Batson Exhibit 3 illustrates that Duke Energy Carolinas' average coal cost during the test year and over time compares favorably to Central Appalachia coal market prices. The average transportation rate per ton of coal increased approximately 6% from an average of $20.79 for the prior period (July 2006 to June 2007) to an average of $23.54 for the test period (July 2007 to May 2008). This increase is the result of: (1) escalating fuel surcharges applied by the railroads as a result of rapidly increasing fuel oil prices during 2007 and 2008; and (2) contractual escalations for freight rates as provided for in the terms of the Rail Agreements. Transportation costs constituted 34% of the Company's total delivered cost of coal during the test period.

These mine and transportation prices for 2007 and 2008 are consistent with the prices I projected in my testimony in Duke Energy Carolinas' last fuel adjustment proceeding (Docket No. 2007-3-E) and used by the Company in developing the currently approved fuel factor being billed for the October 2007 through September 2008 period.

The average oil cost for the July 2007 through May 2008 period increased 48% to $2.7278 per gallon compared to the previous review period ending June 2007. Average natural gas costs for the July 2007 through May 2008 period decreased 15% to $7.79/Mcf (per thousand cubic feet) when compared to the previous review period ending June 2007. The significant increase in fuel oil costs is a result of rapidly increasing oil prices during the test period. Oil and natural gas combined accounted for only 5% of the Company's total fuel costs during the test period.

Q. WHAT CHANGES DO YOU SEE IN COAL MARKET CONDITIONS FORTHCOMING IN 2008 AND 2009?

A. At this time, the market prices for Central Appalachia coal to be delivered in 2008 and 2009 are at an all-time high. The market has increased from the mid $40s per ton in the summer of 2007 to $120 to $150 per ton by July 2008. The primary reason for the dramatic increase in coal prices is the rapid change in global coal market conditions, particularly unanticipated world coal supply disruptions and increasing world coal demand. This increasing global demand has resulted in heightened demand for all United States ("US") coal supply regions, particularly those that supply the Company. After a period of declining and stable Eastern coal

prices over the last two years, US coal prices are now being impacted by growing demand and supply issues in China, Australia, South Africa, and Europe.

China had its most severe winter in 50 years and experienced several major earthquakes this spring, which resulted in disruptions in the coal supply and transportation networks leading to domestic coal shortages. These shortages combined with China's significant growing demand for coal caused China to become a net importer of coal for the first time in 2007. China has also periodically suspended exports because of continuing coal shortages at power plants. Australia, the world's largest coal exporter, experienced extreme floods in January of this year that caused producers to declare *force majeure* on approximately 10 million tons of coal exports scheduled for that month alone. In addition, port delays at Australia's main terminals have continued to wreak havoc on global shipping markets. South Africa, another large world coal exporter, has been dealing with chronic electricity shortages on its national power grid, which has resulted in electricity being curtailed at many of its coal mines causing further coal supply reductions. As more coal power plants are being built in South Africa and Asia, more of these countries' coal production is being used for domestic consumption rather than for export.

The result of these changing world supply and demand conditions is the increase in US coal exports by 35 million tons between 2006 and 2008. Port capacity along the US east coast is currently being expanded to meet this growing demand for US coal. It should be noted that the vast majority of US exports are going to European markets to supplement reduced shipments they are receiving from Australia and South Africa. Although many of the recent world supply

disruptions may eventually mitigate, Australian and South African exports are expected to continue to flow into Asian countries for the next several years to meet the growing demand of countries such as India and China for coal. Consequently, the Company expects increasing Asian demand to continue to impact US coal markets as US suppliers continue to back-fill the European markets.

In addition, as I have noted in prior fuel adjustment clause proceedings, mining operating costs continue to increase as a result of (i) high petroleum and steel costs, (ii) growing demand for labor, (iii) declining mining productivity, (iv) increasing regulations for mining safety, and (v) the dramatically higher market prices which generally tend to create upward pressure on costs. It was noted earlier this year by Bill Caylor, the President of the Kentucky Coal Association that additional requirements and regulations for mining safety could add another $4 to $6 per ton to the cost of coal. Another important cost driver is the inability of the US coal suppliers to expand production quickly enough to keep up with the new global demand. The supply of coal in the Eastern US has become largely inelastic, *i.e.*, higher market prices have not led to increasing production. The primary reasons for the inelasticity are (i) stringent environmental regulations, (ii) lengthy permitting requirements for new coal production, (iii) very significant economic barriers to entry, and (iv) uncertainty surrounding future demand in the US as a result of possible carbon legislation.

It is important to note that as coal consumers seek alternative coal sources, options are limited. Transportation complexities associated with moving coal over new, longer and more expensive routes, as well as the challenges new and different

coal qualities bring to coal plant handling, operations and environmental compliance, make finding alternatives very difficult. Duke Energy Carolinas continues to have periodic discussions with rail transporters regarding future sourcing plans to ensure as much supply reliability and sourcing flexibility as possible.

Q. HOW DID THE COMPANY RESPOND TO THESE SIGNIFICANT MARKET CHANGES DURING THE TEST PERIOD?

A. As a result of upward pressure on market conditions and prices over the long term, Duke Energy Carolinas contracted large amounts of coal in mid-2007 to guard against potential higher market pricing in 2008. Coal producers were unwilling to contract for terms longer than one to two years as a result of production costs nearing then market prices and the numerous risks inherent in the increasing production costs noted above. This coal was purchased at average prices in the mid $40s. The Company also purchased significant volumes of spot coal in 2007 at prices below contract prices suppliers were offering for 2008 delivery and increased coal inventories to the maximum levels most plants could handle. In the Fall of 2007 when market prices began to climb, the Company purchased additional coal for 2008 delivery at prices in the mid $50s.

In response to the rising prices, the Company moved up its planned Spring 2008 Request For Proposal ("RFP") to January 2008. At the time of the RFP, the market price was approaching the $60s per ton. The market increased by $20 per ton in the month of January alone after the RFP was sent out. Duke Energy Carolinas purchased coal for different terms and volumes over the 2009 through 2011 period

in early February as the market reached the $70s to $80s per ton level. Given these purchases, the current market for Central Appalachian coal in the $120 to $150 per ton range will have a limited impact on the Company's average coal price for 2008 and 2009. By locking up fixed price contracts, the Company achieved pricing and supply reliability. All of these purchases were competitively bid in accordance with the Company's procurement practices. The Company maintains and complies with coal contract and spot procurement target guideline percentages for each type of purchase.

Q. DO THE COMPANY'S COAL PROCUREMENT PRACTICES DESCRIBED IN BASTON EXHIBIT 1 NEED TO CHANGE AS A RESULT OF THESE CHANGES IN THE COAL MARKETS YOU HAVE DISCUSSED?

A. No. The fundamentals of the Company's procurement practices are sound. Duke Energy Carolinas believes, however, that current market conditions require it to emphasize certain aspects of its procedures more. As I state later in my testimony, the Company will be emphasizing ensuring supplier and railroad contract performance. Also, as I mentioned earlier, Duke Energy Carolinas will continue to explore alternative sources for obtaining coal.

Q. WHAT CHANGES DO YOU EXPECT IN THE COMPANY'S COST OF COAL IN 2008 AND 2009?

A. Although Eastern coal prices are at an all-time high, these market prices should have limited impact on Duke Energy Carolinas' 2008 costs because over 95% of projected coal needs have been contracted at prices well below current market

prices. Based upon the prices for existing coal purchase commitments and the current projected market prices for coal requirements in 2008 and 2009 that have not yet been purchased, it appears that the Company's average cost of coal will remain in the upper $40s per ton for 2008 maintaining the same average coal price over the 2006 through 2008 period. However, the Company's average cost of coal will start to increase in 2009 as existing coal supply contracts expire and are replaced with higher prices. This increase will be limited in the forecast period because approximately 90% of 2009 projected needs have already been contracted. The expected average cost of coal purchases for the forecast period of October, 2008 through September, 2009 is approximately $62 per ton, which is still dramatically lower than the current and projected market price for Central Appalachia coal as shown on Batson Exhibit 3.

Q. WHAT CHANGES DO YOU EXPECT IN THE COMPANY'S COST OF TRANSPORTATION IN 2008 AND 2009?

Duke Energy Carolinas maintains multi-year rail contract arrangements with the Norfolk Southern Railway Company ("NS") and CSX Transportation ("CSX") for delivery of coal. The Company is not aware of any significant changes in transportation costs forthcoming in 2008 and 2009 as compared to 2007 with the exception of: (1) fuel surcharges will be significantly higher as they are tied to the price per barrel of oil and could remain volatile if oil prices do not remain stable; and (2) rail contract rates increase for inflationary factors pursuant to the terms and conditions of the contracts. Duke Energy Carolinas paid approximately $17 million in fuel surcharges in 2007 and expects to pay significantly more in 2008. As a

result, we project that the Company's average cost of transportation will increase to approximately $25 per ton for the forecast period of October 2008 through September 2009.

Q. WHAT IS THE COMPANY PROJECTING THE COST OF COAL AND TRANSPORTATION TO BE FOR THE FORECAST PERIOD?

A. Adding the coal and transportation together, the Company is projecting average delivered coal costs to be approximately $87 per ton for the October 2008 through September 2009 forecast period.

Q. HOW DOES THE COMPANY INTEND TO MANAGE ITS COAL COSTS FOR THE FORECAST PERIOD?

A. Duke Energy Carolinas will continue to maintain a comprehensive coal procurement strategy, the success of which has been demonstrated over the last several years by limiting average annual coal price increases and maintaining average coal costs at or well below those seen in the marketplace. Although Duke Energy Carolinas' steam stations are designed to consume a typical Central Appalachia coal, we will continue to evaluate the options for coal supply delivered into the Carolinas from all US and international sources. In addition, we will issue two or three RFPs per year. We will also monitor the market on a daily basis by reviewing various market analyses, having frequent discussions with suppliers, and constantly monitoring published market prices.

Other aspects of this procurement strategy include (i) having the appropriate mix of contract and spot purchases, (ii) staggering contract expirations so that the Company is not faced with price changes for a significant percentage of purchases at

any one time, and (iii) pursuing contract extension options that provide flexibility to extend terms within a set price collar. This strategy was employed throughout 2007 when Duke Energy Carolinas purchased as much 2007 spot coal as possible to maximize coal inventories and take advantage of the lower 2007 pricing. Duke Energy Carolinas purchased spot coal at prices lower than the 2008 price levels and inventoried it for future use which has resulted in lower overall costs for 2008. These opportunities will continue to be monitored going forward.

Another aspect critical to controlling costs will be to actively monitor supplier and railroad performance in 2008 and 2009 to protect a supply portfolio that is projected to be $1 billion annually below market in 2008 and 2009 based on July 2008 market prices.

Because the Company does not have coal delivery options other than rail, the future activities of the railroads and the Surface Transportation Board will continue to impact the level of service and cost of rail transportation experienced by the Company. As such, the Company supports legislative and regulatory efforts to promote competition, as well as to ensure reasonable rates in the railroad industry.

These are many of the initiatives Duke Energy Carolinas has undertaken and will continue to pursue to limit the Company's exposure to regional coal market price increases and help control and stabilize coal costs in general.

Q. PLEASE ELABORATE ON THE CHALLENGES AND OPPORTUNITIES ASSOCIATED WITH SOURCING COAL FROM REGIONS OTHER THAN CENTRAL APPALACHIA.

Sourcing coal from new regions has become difficult as a result of the many

changes in the world coal markets. South American market price increases make imports along the east coast uneconomic as this coal is over $170 per metric ton. The Northern Appalachia markets have seen significant market price increases over the past 12 months and the price of this coal supply now nears the price of lower sulfur Central Appalachia coal. Thus, the increased cost of Northern Appalachia coal coupled with the additional transportation costs associated with hauling the coal much longer distances make new purchases of Northern Appalachia coal much less economic. Notwithstanding these current conditions, the Company will continue to deliver growing volumes of higher SO2 Northern Appalachian coal (leveraging Agreements from prior years) to the Marshall Steam Station, which utilizes flue gas desulfurization equipment at the plant. In 2007, approximately 1,000,000 tons of high SO2 Northern Appalachian coal was delivered to Marshall, increasing to 1,500,000 tons in 2008 and potentially up to 2,000,000 tons into the Carolinas in 2009.

Although we continue to evaluate new sources of coal, operational issues caused by differing coal quality constituents (as compared to the coal quality for which the plants were originally designed) will cause the Company to continue to purchase the majority of its coal supply from the Central Appalachia region. The Company expects approximately 90% of its total coal supply to originate from Central Appalachia coal quality sources in 2008. The Company has developed a well-diversified Central Appalachia coal supplier base as the largest single supplier is expected to represent only about 15% of total coal purchases in 2008.

Q. BRIEFLY DESCRIBE WHAT HAS HAPPENED TO THE COMPANY'S USE OF SYNFUEL.

I have testified in prior fuel cost adjustment proceedings regarding the purchase of synthetic fuel ("synfuel") from facilities located at Duke Energy Carolinas' Belews Creek and Marshall Steam Stations. The federal tax credit provisions associated with synfuel expired at the end of 2007, at which time these synfuel facilities permanently ceased operating. Fuel cost savings of approximately $12 million, resulted from operating these facilities in 2007. These savings were credited through fuel clause accounts.

Q. PLEASE EXPLAIN THE COMPANY'S FUEL INVENTORY POSITIONS.

A. Batson Exhibit 4 shows inventories for coal and oil at the beginning and end of this reporting period. Coal inventories decreased from 3,665,381 tons as of June 30, 2007, to 2,720,440 tons as of May 31, 2008, which equates to 38 days of full load burn. This decrease in inventory is primarily the result of purchasing substantial amounts of spot coal in 2007 in lieu of waiting to buy 2008 coal, which would have been purchased at much higher prices. The decrease brings the Company's current actual level of coal inventory close to its target level of 40 days of full load burn. Duke Energy Carolinas expects to maintain appropriate inventory to support consumption requirements and will continue to closely monitor coal supplier and railroad performance.

Oil inventories as of May 31, 2008 increased approximately 7% as compared to the June 30, 2007 total.

Q. WITNESS ROEBEL DISCUSSES THE COMPANY'S ENVIRONMENTAL CONTROLS EQUIPMENT AND THE USE OF REAGENTS IN THE OPERATION OF THE EQUIPMENT. IS THE REGULATED FUELS DEPARTMENT RESPONSIBLE FOR PROCUREMENT OF ANY OF THESE REAGENTS?

A. Yes. My department is responsible for purchasing and transportation logistics for limestone that is used in the operation of Duke Energy Carolinas' flue gas desulfurization equipment, which removes sulfur dioxide from coal plant operations. There are many similarities between limestone and coal thereby leading to the decision to group these bulk commodities within the same procurement function. Limestone, like coal, is delivered by rail and requires extensive logistics support to ensure proper delivery. The volume of limestone required varies based on the sulfur content of coal. Therefore, close coordination and planning between the two commodities is required. Also, inventory management of limestone is very similar to coal requiring frequent review of limestone use, deliveries and total inventory.

Q. WHAT COSTS FOR LIMESTONE ARE INCLUDED IN THE COMPANY'S PROPOSED FUEL FACTORS?

A. For the June 2008 through September 2009 period, limestone use will be limited to the Marshall and Belews Creek steam stations. Projected use at each plant is approximately 20,000 tons per month once all scrubbers are fully operational. Limestone volumes will be increasing in future years as additional scrubbers are installed. Limestone supply has been secured from a central Virginia source under a

long term supply contract that was competitively bid and entered into in 2004. Additionally, a multi-year rail contract with Norfolk Southern Railway has been established for Marshall and Belews Creek steam stations. Total limestone expenses are projected to be approximately $24 million for the June 2008 through September 2009 period.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

Duke Energy Carolinas Fossil Fuel Procurement Practices

The Company's fossil fuel procurement practices are summarized below.

Coal

- Near and long-term consumption forecasts are computed based on factors such as: load projections, fleet maintenance and availability schedules, coal quality and cost, environmental permit and emissions considerations, wholesale energy imports and exports.
- Station and system inventory targets are determined and designed to provide: reliability, insulation from short-term market volatility, and sensitivity to evolving coal production and transportation conditions. Inventories are monitored continuously.
- On a continuous basis, existing purchase commitments are compared with consumption and inventory requirements to ascertain additional needs.
- All qualified suppliers are invited to make proposals to satisfy any additional or future contract needs.
- Contracts are awarded based on the lowest evaluated offer, considering factors such as price, quality, transportation, reliability and flexibility.
- Spot market solicitations are conducted on an on-going basis to supplement contract purchases.
- Delivered coal volume and quality are monitored against contract commitments. Coal and freight payments are calculated based on certified scale weights and coal quality analysis meeting ASTM standards. During the test period the Company utilized both destination and origin weights and analysis.

Natural Gas

- Near and long-term consumption forecasts are generated by the same system that produces coal estimates. Gas is burned exclusively in peaking assets – combustion turbines.
- Gas is not locally inventoried, but rather scheduled and delivered via pipeline on a daily basis. Oil is burned when gas is not economically available.
- In response to annual solicitation, suppliers submit proposals to provide bundled supply service to peaking facilities. This service consists of the commodity (gas), its transportation (pipeline), storage, and balancing services.
- Contracts are awarded based on the overall economic value offered, considering factors such as price, responsiveness, reliability, and best operational fit.

Fuel Oil

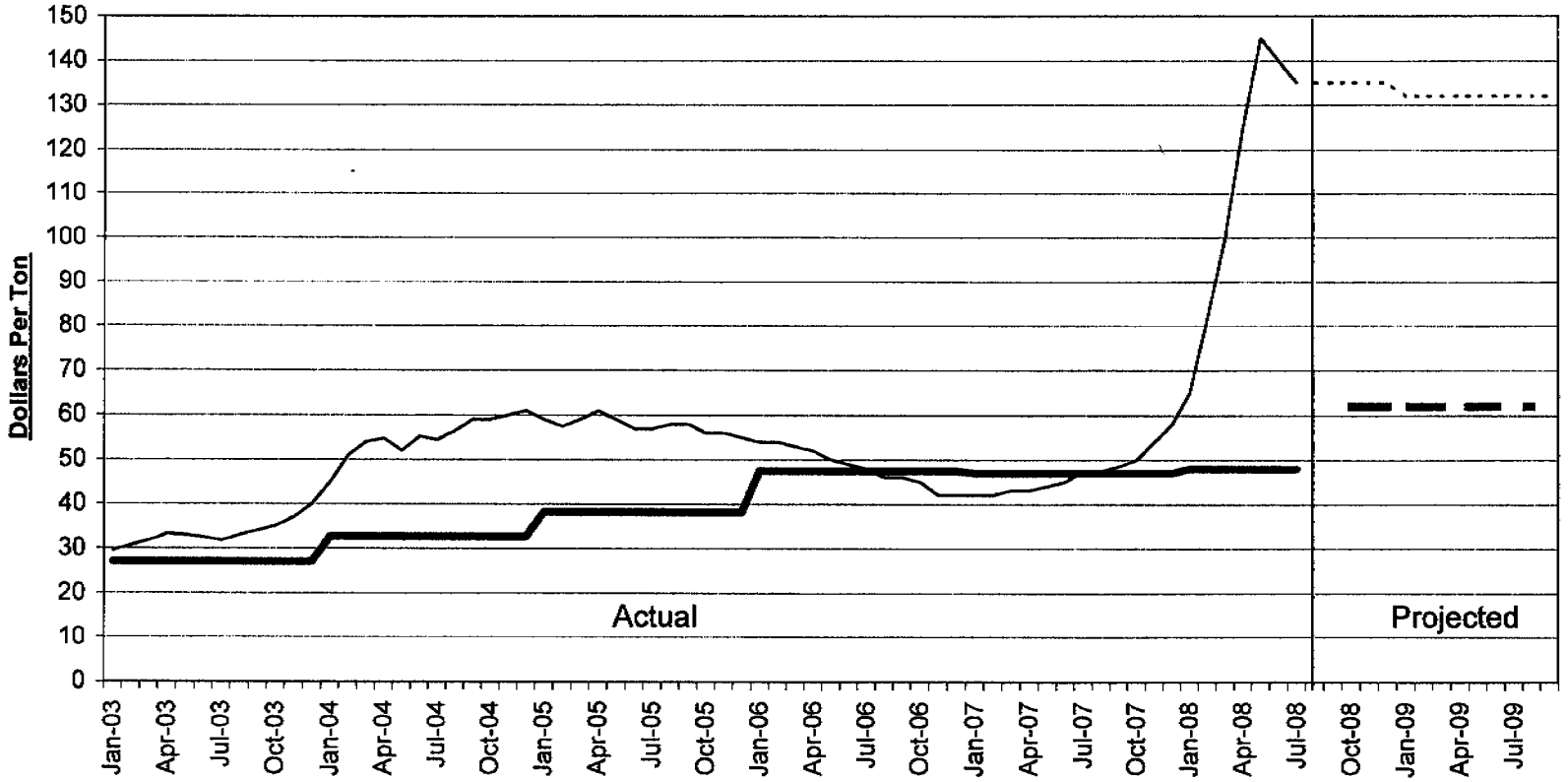
- Consumption forecasts are generated by the same system that produces coal estimates. No. 2 diesel is burned for initiation of coal combustion (light-off at steam plants) and in combustion turbines (peaking assets).
- All diesel fuel is moved via pipeline to terminals where it is then loaded on trucks for delivery into the Company's storage tanks. Because oil usage is highly variable, Duke relies on a combination of inventory and reliable suppliers who are responsive and can access multiple terminals. Diesel is replaced on an "as needed basis" as called for by station personnel with guidance from fuel procurement staff.
- Formal solicitation for supply is conducted annually. Contracts are awarded based on the lowest evaluated offer with special value on suppliers demonstrated ability to move large volumes of fuel with minimal notice.

BATSON EXHIBIT 2

FUEL PURCHASES AND CONSUMPTION
JULY 2007 - MAY 2008

COAL		
	Tons Burned	16,873,616
	Tons Purchased	16,036,139
	Avg. Mine Price/Ton	$45.78
	Avg. Freight Price/Ton	$23.54
	Avg. Delivered Price/Ton	$69.32
	Avg. Delivered Price/MBTU	$2.8162
OIL		
	Gallons Consumed	8,268,043
	Gallons Purchased	10,954,203
	Avg. Price/Gallon Purchased	$2.7278
NATURAL GAS		
	Mcf. Purchased	7,200,987
	Avg. Price/Mcf.	$7.79

Comparison of Central Appalachia Coal Market Prices to Duke Energy Carolinas Average Coal Mine Cost



Central Appalachia 12,500 Btu/lb 1% Sulfur Market Price

Projected Central Appalachia 12,500 Btu/lb 1% Sulfur Market Price

Duke Actual Annual Average Costs adjusted to 12,500 Btu/lb 1% Sulfur

Proposed Coal Mine Price for 2008 SC Fuel Factor Oct 2008 - Sept 2009

BATSON EXHIBIT 3

BATSON EXHIBIT 4

FUEL INVENTORIES

	06/30/07	05/31/08
COAL (TONS)	3,665,381	2,720,440
#2 OIL (GALLONS)	18,778,018	20,233,494